

Fairfax County Economic Index

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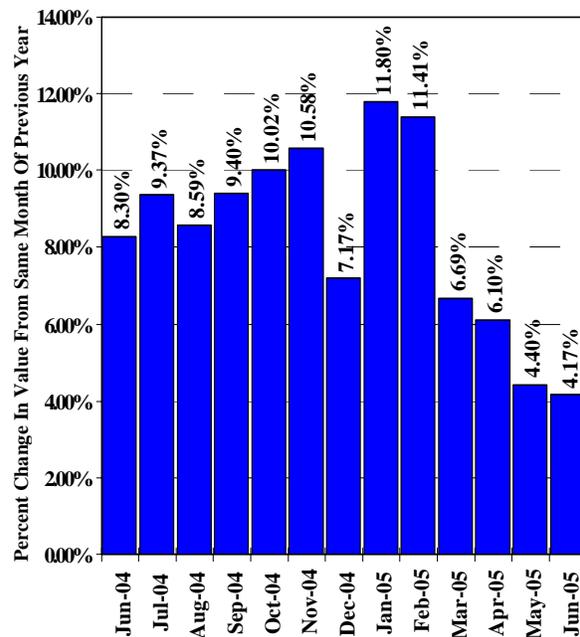
August 2005

The Economy's First Half Gains Projected to Continue into 2006

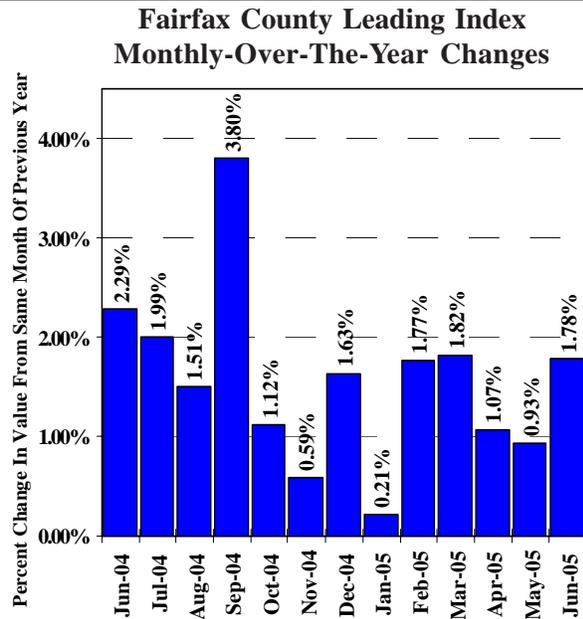
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 133.18 in June for a marginal 0.05 percent decline. However, for the year's first six months, the Coincident Index was up 2.7 percent and has gained 4.2 percent since June 2004 extending its positive trend to a nineteenth consecutive month. In June, just one of its four indicators was negative.

- Total employment decreased slightly in June for a second month; while,
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, increased for a second consecutive month;
- Consumer confidence (in the present) registered its second positive month in a row; and,
- Sales tax revenues, adjusted for inflation and seasonal variation, increased following two down months.

**Fairfax County Coincident Index
Monthly Over-The-Year Changes**



Source: Center for Regional Analysis, George Mason University



Source: Center for Regional Analysis, George Mason University

The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, increased to 109.2 in June for a gain of 0.92 percent and has now been positive in five of the year's first six months for a gain of 1.76 percent. On a monthly over-the-year basis, June's Index value was up by a similar value (1.78%) and has increased for twenty-seven consecutive months on a monthly over-the-year basis. June's Index gain reflected improvement in all three leading indicators.

- Consumer expectations (consumer confidence six months hence) increased slightly in June following its sharp gain in May;
- New automobile sales rebounded strongly following two down months; and,
- Initial claims for unemployment insurance decreased (improved) following gains in April and May.

At mid-year, the Fairfax County economy continued to expand at a healthy rate in spite of sharp increases in energy prices, steadily increasing interest rates, and consumer uncertainty as reflected in seesawing confidence indices. On a monthly over-the-year basis, all Fairfax County Coincident Indicators were higher although several of the Leading

Indicators have declined slightly over the last twelve months. The labor market indicators show further tightening as initial claims (newly laid off workers) declined 32 percent over the year and new jobs were up by 3.9 percent reflecting a gain of 23,000 workers. The long term trend points to further growth over the second half of 2005 with growth continuing into 2006 as the Leading Index extended its gains to a 27th month on a monthly over-the-year basis.

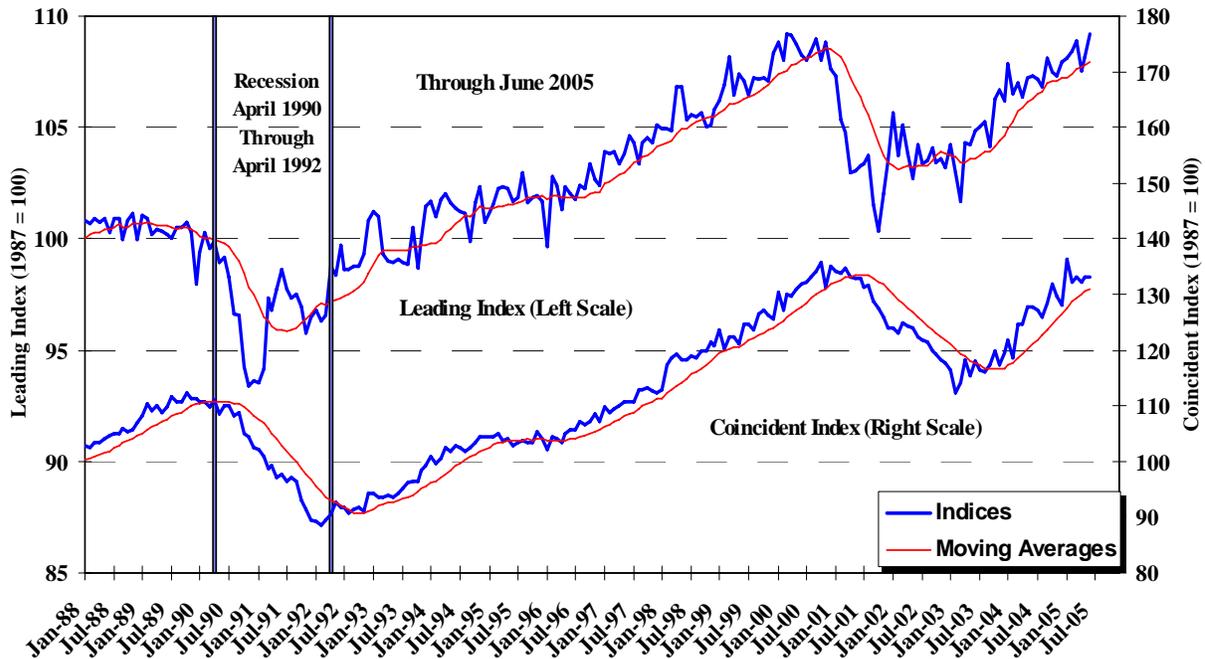
CURRENT CONDITIONS

While the Coincident Index slipped marginally in June (down 0.05%), its underlying conditions remained strong. Compared to same-month values in June 2004, all Coincident Indicators have registered healthy gains over the past twelve months. Leading these gains are job growth, improving consumer confidence and increased spending.

Jobs continued to grow strongly in the County as they have in the entire Washington area. The region's job gains have led the nation's other metropolitan areas every month for five years and are averaging 79,600 new jobs through mid-year on an annualized basis. Fairfax County has recently accounted for about one-third of the region's job growth even though it only accounts for 20 percent of its population. However, June's estimated job growth in Fairfax County dropped below its usual 4 percent annual rate and totaled 23,000 new jobs accounting for 27 percent of the metropolitan area total. This slightly slower job growth rate may reflect the effects of an emerging shortage of qualified workers as suggested by other indicators pointing to the County's tight labor market. Initial claims for unemployment insurance were 32 percent lower than a year ago and unemployment remains low.

Consumer confidence has been trending higher through the year's first half and spending has increased as well. Retail sales tax collections registered a healthy gain in June following two monthly declines and new automobile registrations that had lagged over the spring bounced back sharply in June in response to sales promotions and discounted prices.

Business Cycle Indicators -- Fairfax County, Virginia



Source: Center for Regional Analysis, George Mason University

Consumer spending remains a key variable to watch over the year's second half as discretionary income is shifted to steadily increasing gasoline prices and as higher interest rates on credit card debt diverts spending potential away from the retail sector. While energy price increases during the first half of the year have had only a small effect on retail sales volume, sharply higher gasoline prices in July and August may undermine fall and holiday spending in future months. A slowdown in consumer spending in spite of strong job gains could reduce the economy's annual growth rate by year's end and establish a trend towards slower growth that will carry forward into 2006 and beyond.

NEAR-TERM OUTLOOK

The current Leading Indicators appear to be pointing to a more moderate growth rate over the next several months. Beyond that short-term period, the direction of growth should remain positive but its rate of gain will be shaped by external factors that can only be identified here to be watched and assessed to determine their likely impacts on the Fairfax County economy going forward into 2006.

Energy prices, interest rates, job growth, and consumer spending—these are the four most visible indicators that will impact the pace of growth into next year and beyond. Interest rates will move higher as the Federal Reserve Board continues its policy of monetary tightening. Energy prices are up dramatically (30% at the gasoline pump) so far this year and are expected to move higher. These higher prices may have already damaged the retail sector and this may worsen during the important holiday sales period. However, job growth will remain strong through 2005 and then it is expected to slow gradually in each subsequent year to the end of the decade.

So, for the short term, the economy seems on course for a good year but not as good as achieved in 2004 and then its growth rate will likely decelerate. This is the forecast for the Washington area economy and the Fairfax County economy. Fortunately for the Fairfax County economy, because of its strong condition, it will continue to perform relatively well compared to other major local economies even after it slows down going into next year.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Jun-05 Prelim.	May-05 Final	Jun-04 Final	May-05 to Jun-05	Jun-04 to Jun-05
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	133.18	133.25	127.85	-0.05	4.17
Leading Index (1987 = 100)	109.20	108.20	107.29	0.92	1.78
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	610,332	612,359	587,375	-0.33	3.91
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	617,564	613,075	594,335	0.73	3.91
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	754	753	693	0.12	8.74
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	1,394	1,365	1,232	2.16	13.14
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	9,302	8,892	9,227	4.61	0.81
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	13,334	12,041	13,002	10.74	2.55
South Atlantic Consumer Confidence	149.8	143.7	134.7	4.24	11.21
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	6,676	5,225	6,837	27.76	-2.35
<i>Automobile Registrations (Unadjusted)</i>	7,519	5,768	7,700	30.36	-2.35
Initial Unemployment Claims (Seasonally Adjusted)	840	874	1,236	-3.96	-32.05
<i>Initial Unemployment Claims (Unadjusted)</i>	797	801	1,173	-0.50	-32.05
South Atlantic Consumer Expectations (Unadjusted)	106.0	105.1	108.2	0.86	-2.03
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	588,514	589,943	576,505	-0.24	2.08
<i>Total Labor Force (Unadjusted)</i>	597,601	592,291	585,407	0.90	2.08
Employed Labor Force (Seasonally Adjusted)	573,746	574,257	565,297	-0.09	1.49
<i>Employed Labor Force (Unadjusted)</i>	580,491	576,434	571,942	0.70	1.49
Unemployed Labor Force (Seasonally Adjusted)	14,767	15,686	11,209	-5.86	31.75
<i>Unemployed Labor Force (Unadjusted)</i>	17,110	15,857	13,465	7.90	27.07
Unemployment Rate (Percent, Seasonally Adjusted)	2.51	2.66	1.94	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	2.86	2.68	2.30	--	--

Notes: Where available, seasonally adjusted estimates are used in the indices. In addition, those expressed in dollar value (Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data. In September 2004, the Transient Occupancy Tax was increased from 2% to 4%. All original values prior to September 2004 were doubled for consistency.

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